1995

ELECTRA

ANNUAL

ENERGY

REPORT

CORPORATION

ELECTRA ENERGY CORPORATION

Corporate Profile

Electra Energy Corporation is an emerging oil company targeting consistent growth through exploration and development in Western Canada.

In early 1995, subsequent to a successful reverse takeover, Electra's shares began trading on the Alberta Stock Exchange under the symbol "EEN".

Increasing shareholder value is the prime objective at Electra.

Annual General Meeting

The shareholders' Annual General Meeting will be held on Thursday, May 30, 1996 at 10:30 a.m. in the Schneider room of the Bow Valley Club, 370, 250 - 6th Avenue S.W., Calgary. All shareholders are cordially invited to attend. Shareholders who are unable to attend are asked to complete and return their Form of Proxy to Montreal Trust Company of Canada.

Highlights

	Year Ended December 31, 1995	10 Months Ended December 31, 1994	% Change
Financial			
($000, except per share data)			
Total revenues	**2,561**	1,176	+ 118
Cash flow from operations	**730**	244	+ 199
Per share	**0.06**	0.02	+ 200
Net loss	**(100)**	(62)	+ 61
Per share	**(0.01)**	(0.01)	—
Capital expenditures	**4,129**	2,314	+ 78
Total assets	**5,133**	3,554	+ 44
Bank indebtedness	**1,305**	—	—
Shareholders' equity	**3,074**	2,826	+ 9
Outstanding common shares,	**13,067**	11,951	+ 9
weighted average	**12,348**	10,873	+ 14
Net asset value	**6,799**	10,133	– 33
Per share	**0.52**	0.85	– 39
Operating			
Daily production			
Oil (bbl/d)	**325**	174	+ 87
Gas (mcf/d)	**43**	135	– 68
Total (boe/d)	**329**	188	+ 75
Reserves			
Oil (mbbl)	**695**	804	– 14
Gas (mmcf)	**1,407**	3,378	– 58
Total (mboe)	**836**	1,142	– 27
Land holdings (net acres)			
Undeveloped	**8,200**	2,668	+ 207
Total	**9,259**	4,786	+ 93
Drilling activity			
Gross wells	**24**	25	– 4
Net wells	**5.1**	4.8	+ 6
Average prices			
Oil ($/bbl)	**21.22**	20.51	+ 3
Gas ($/mcf)	**1.13**	1.41	– 20

President's Message

During the past year, Electra continued to be an exploration company as opposed to an acquisition and exploitation company. The Corporation exited 1995 with an 81% net, drilling success ratio for the year. Electra drilled 24 gross (5.1 net) wells resulting in 18 gross (3.1 net) oil wells and 1 gross (1.0 net) gas well. The main thrust of our business plan involves the application of geological and geophysical principles to define potentially productive areas. Based on our geological interpretation, we secure prospective acreage, either crown or freehold, by leasing, farm-in or seismic option and shoot or acquire seismic data, over this acreage. The results are interpreted by geophysical experts and correlated with the geological interpretation. When both disciplines confirm the probable and economic accumulation of hydrocarbons, the prognosis is tested by the drilling of a well. Exploration is a high risk, high reward undertaking. The Company intends to complement its exploration focus by the acquisition of long life producing properties.

The past year provided Electra and its personnel with great challenge, both in an economic and exploration sense. Replacement of declining production volumes, which reflected high initial rates, necessitated additional development drilling in Taber and Grassy. In addition to this activity, we accumulated prospective acreage in Southern Alberta and Southeastern Saskatchewan, which is near the drilling stage and with success in either of these Areas, Electra will be in a strong position for development work. At present, Electra has working interests varying from 10% to 100% in 13 exploration prospects, all of which have been generated by our in-house geological team. Our efforts are concentrated on properties which can potentially provide immediate cash flow. Electra's capital expenditure program is designed to rapidly convert investment into payback and earnings.

Electra's land strategy is to dispose of those properties in which it has a small working interest. In May, 1995, the Company disposed of a gross overriding royalty interest it held on lands in Northern Alberta and undeveloped acreage at Bow Island, Alberta. On July 1, 1995, Electra divested itself of minor working-interests in geographically diverse regions of Alberta. During December, the Company received cash and shares of a private corporation for its small working-interest in a gas property. Subsequent to year end, a shut-in gas property the Company held at Drumheller was sold.

Though the Company intends to continue as an exploration company, since it has the infrastructure in place, it will also pursue its objective of increasing shareholder value through a merger or an amalgamation or through acquisitions of producing properties. Any merger or amalgamation will have to be evaluated against the following parameters:

- **diversify our production base to include natural gas with long life reserves;**
- **limit our debt level to no more than two times cash flow;**
- **minimize the administrative expense necessary to manage the combined entity;**
- **increase our undeveloped acreage position; and**
- **establish tax pools to shelter future income from taxation.**

Acquisitions of producing properties will be made only if they can, in addition to increasing production and cash flow, be successfully measured against the following parameters:

- **exploitation through the drilling of development locations;**
- **increased efficiency of operations; and**
- **upside in commodity prices.**

Although the turnaround in equity markets to favour junior oil and gas explorers and producers did not materialize, Electra did enter into a private placement arrangement during December, 1995, where it issued 852,600 flow-through common shares, at $0.42 per share, to raise $358,000. In exchange, the Company committed to renounce $358,000 of resource expenditure tax deductions, incurred prior to February 29, 1996, to these shareholders.

Management will build economies of scale into our operations and will discriminate as to its source of capital. Bank financing will not be utilized for exploration projects. Internal sources will fund approximately $2 million of capital expenditures during 1996. Company personnel are constantly seeking and evaluating off-balance sheet methods to provide additional financing.

We have the prospects, the personnel and the desire to build the Corporation's net worth and we thank you for your continued support.

On behalf of the Board of Directors

J. D. Gary Kirkpatrick, President

March 15, 1996

Exploration and Development

TABER WEST, ALBERTA

At the close of 1995, the Taber West area accounted for 187 bbl/d or 59% of Electra's total production, from 18 (5.00 net) producing oil wells. These wells produce a medium gravity crude from the Cretaceous Taber Formation. The drilling of 9 (2.20 net) new wells added 60 bbl/d of additional production to Electra's account; however, production declines in other wells resulted in an overall decrease in field performance during the year. A pressure maintenance scheme is scheduled to be operating in early 1996 to counteract current production declines.

Since the discovery of the pool, Electra has participated in the drilling of 23 gross wells in the Taber West project, with success on 18 (78%) of these wells. Six (6) additional drilling locations have been identified, of which, 3 may be drilled in 1996.

Alberta & Saskatchewan 1995

TOTAL CAPITAL	$4.13 Million
WELLS	24 (5.1 net) 18 Oil, 1 Gas, 5 D&A
SUCCESS	79%
PRODUCTION (Dec 95)	317 bbl/d

GRASSY, ALBERTA

In December 1995, 106 bbl/d net to Electra or 33% of the Corporation's production came from Grassy. The oil is medium gravity sweet crude from the Cretaceous Glauconite Formation. At the close of 1995, 6 (2.05 net) wells were on production, with a seventh well drilled in the fourth quarter of 1995 being completed.

Five (0.60 net) wells were drilled at Grassy in 1995, resulting in 4 oil wells and 1 dry hole, for a success rate of 80%. Since December 1994, Electra's net production has increased by 30% at Grassy. Seven (7) additional locations have been identified, with current plans for 3 (0.50 net) wells to be drilled in the second quarter of 1996.

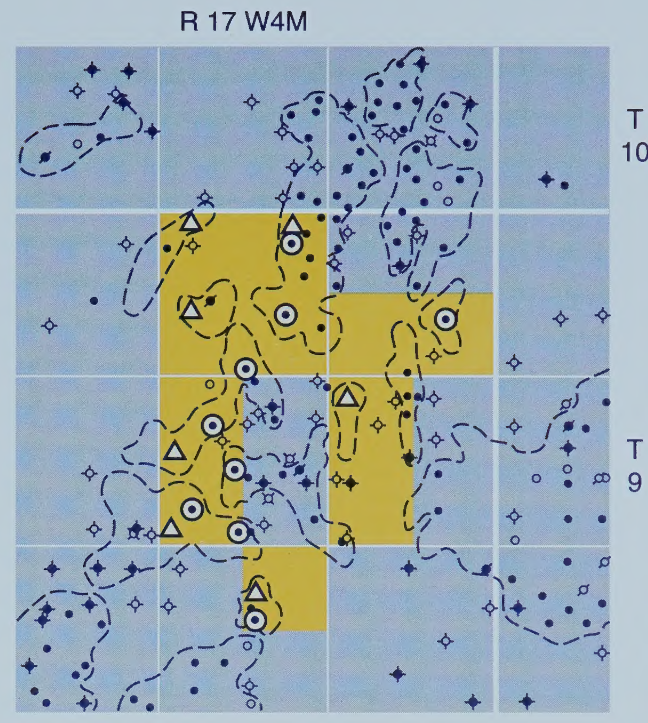
BATTRUM, SASKATCHEWAN

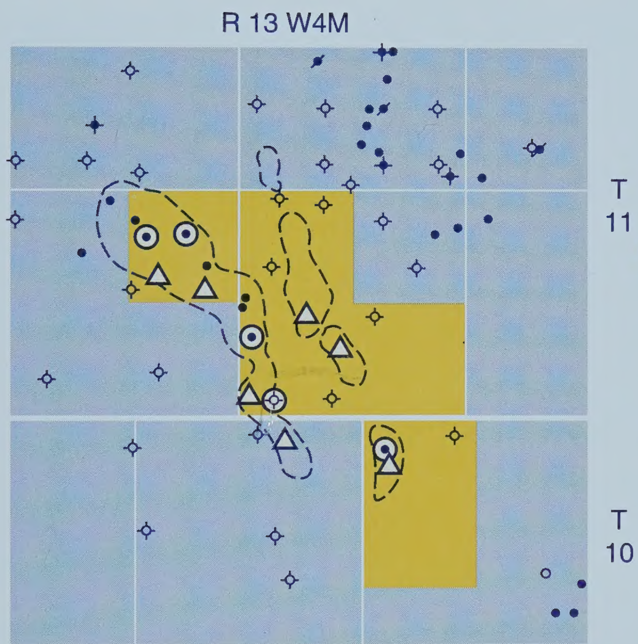
In December, 1995, 24 bbl/d net to Electra came to the Corporation's account from Battrum. During 1995, Electra participated in the drilling of 6 (0.75 net) wells, resulting in 4 (0.40 net) oil wells and 2 dry holes for a success rate of 67%. Three producing wells were drilled on the Battrum Voluntary Unit No. 1 lands (W.I. 3.70%), while a fourth was drilled as an extension to the Unit, on 25% W.I. lands. Up to 7 additional locations are recognized on or adjacent to the Unit, where Electra's W.I. ranges from 3.70% to 100%. Three of these locations are expected to be drilled in 1996. All production and potential is in the Jurassic Rosary Formation.

In mid-1995, a seismically defined target was drilled on 35% W.I. lands to the west of the Battrum Unit. The target Rosary was eroded at the drilling location and the well was abandoned. The lands are currently under seismic review by an active driller in the area. This area may see a further test later in 1996.

TABER, ALBERTA – 1995

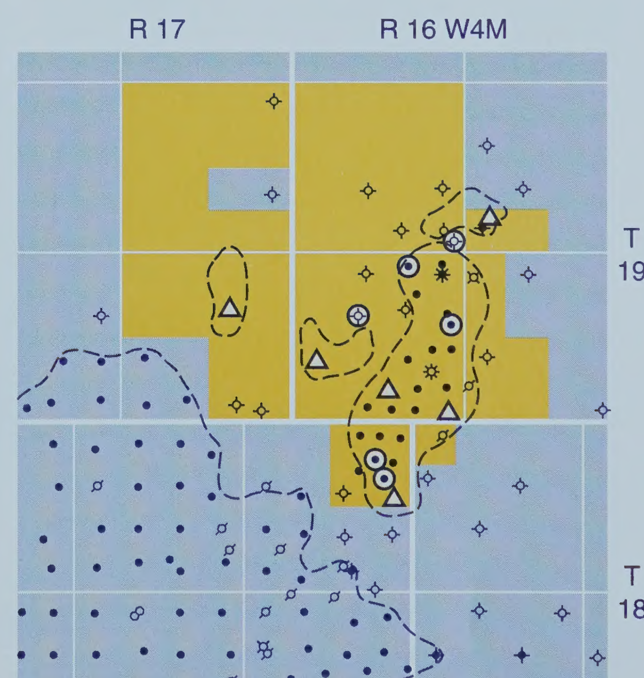
Capital	$1.90 Million
Wells	9 (2.2 net) Taber oil
Success	100 %
Working Interest	7.5 – 37.5 %
Current Production	187 bbl/d net





GRASSY, ALBERTA – 1995

Capital	$0.49 Million
Wells	5 (0.6 net) Glauconite oil
Success	80 %
Working Interest	6.25 – 20 %
Current Production	106 bbl/d net



BATTRUM, SASKATCHEWAN – 1995

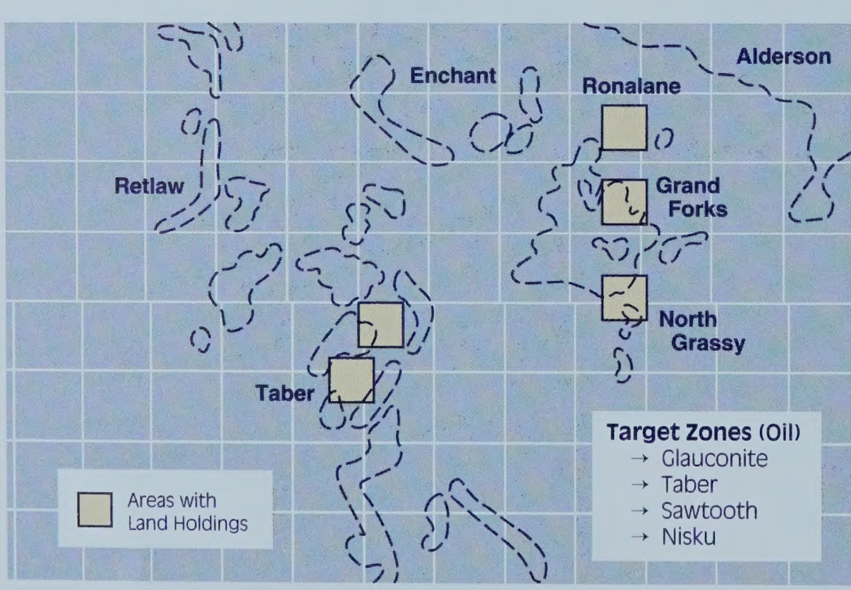
Capital	$0.21 Million
Wells	6 (0.75 net) Rosary/Success oil
Success	67 %
Working Interest	3.7 – 35 %
Current Production	24 bbl/d net

EXPLORATION TARGET AREAS

Electra continues to pursue its vision that significant, sustainable growth lies in success through exploration. During 1995, the Company was able to map and seismically define both oil and gas prospects in a number of areas. Work continued in the Greencourt, Alberta project, where several oil and gas prospects await postings or farmins in 1996. Prospects were also developed in Alberta, in the Taber and Skiff areas, with the successful acquisition of lands bearing potential for oil pools in the Sawtooth Formation. One (0.25 net) well was drilled at Skiff and encountered an oil-bearing, low porosity Sawtooth zone. This well is believed to lie on the western edge of a substantial southern extension of the Skiff Sawtooth oil field, which has produced 1.1 million barrels of oil with a current production level of 180 bbl/d. Electra's well is currently suspended awaiting the outcome of further drilling.

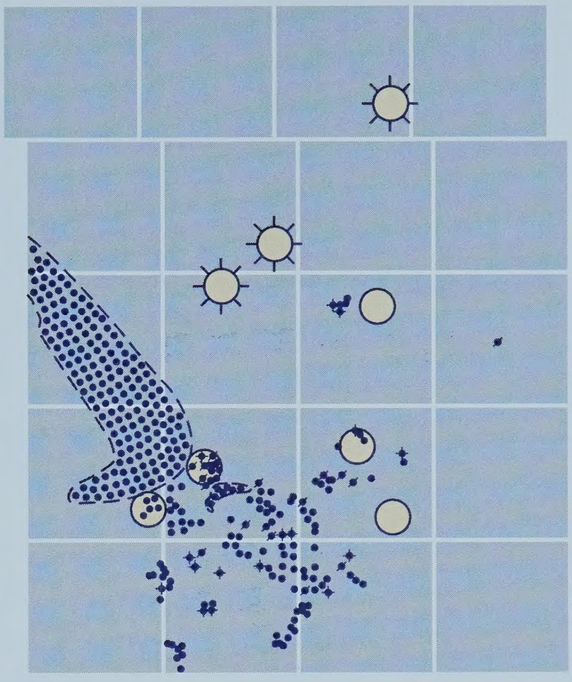
In Saskatchewan, lands were acquired and evaluated with seismic at Workman and Queensdale. One (0.27 net) well was drilled on a Mississippian Sherwood play at Workman. Although clean oil was recovered on a drillstem test of the target, the zone was judged to be uneconomic to complete and the well was abandoned (a follow-up well was subsequently drilled in early 1996, but encountered a porous, wet target zone and was also abandoned). Electra acquired land on other Mississippian-age oil prospects in the area at 100% W.I. levels. These are now under review for farmout. At Queensdale, Electra acquired, at a 100% W.I. level, lands with potential for oil in the Mississippian Frobisher-Alida Formation. A seismic program was shot by Electra in the first quarter of 1996, which is being evaluated.

A Core Area is created by drilling success. It is Electra's strategy to pursue a number of possible areas simultaneously, so that corporate growth can be attained within a reasonable period of time. In Alberta, drillable prospects have been tied-up through farmin or Crown land acquisitions at Mulligan, Golden, Bashaw, Ronalane, Grand Forks and Skiff, and in Saskatchewan, at Dollard and Queensdale. Current plans call for the drilling of 6 exploration wells in the first half of 1996.

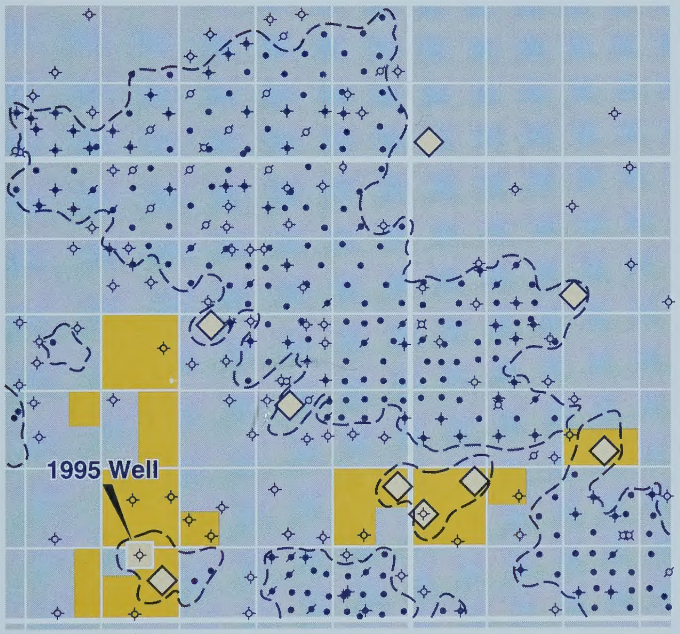


Land Holdings in Taber Core Area

Exploration Target Areas

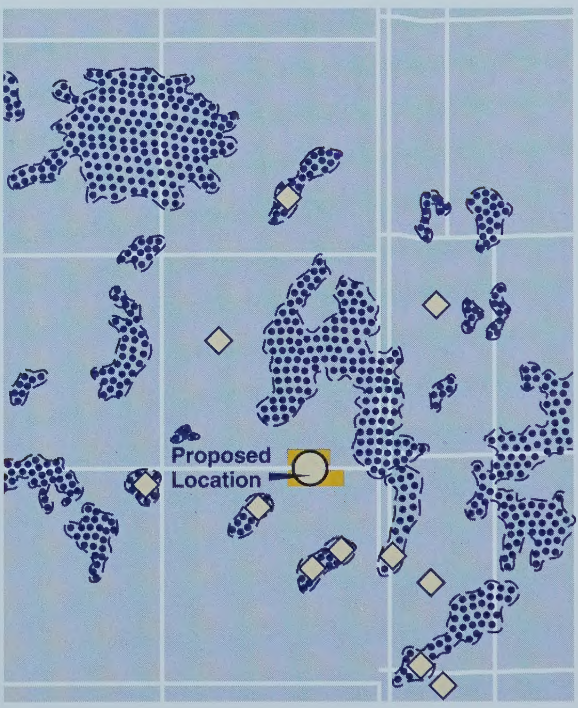


Greencourt Area



Workman Area

Queensdale Area



1995 Drilling Summary

	Number of Wells	
	Gross	Net
Category		
Oil	18	3.1
Gas	1	1.0
Dry and Abandoned	5	1.0
Total	**24**	**5.1**
Success Ratio	79%	81%

Land holdings (net) at December 31, 1995

	Total	Undeveloped
Alberta	5,477	3,487
Saskatchewan	3,782	4,713
Total	**9,259**	**8,200**

Review of Operations

Reserves And Asset Value

The following tables reflect remaining recoverable reserves of crude oil and liquids and natural gas evaluated independently by Reliance Engineering Group Ltd. as at July 1, 1995 and updated to December 31, 1995 by management. A comparison with December 31, 1994 shows that crude oil and liquids reserves decreased 14% and natural gas reserves decreased 58% over the fiscal period, resulting in an overall decrease of 27% or 306 mboe.

Petroleum and Natural Gas Reserves and Present Worth as at December 31, 1995:

	Reserves			Present Worth Of Estimated Future Net Revenues Before Tax ($000)			
	Oil (mbbl)	Gas (mmcf)	BOE (mboe)	0%	10%	15%	20%
Proven	468	1407	609	7565	5462	4792	4253
50% Probable	227	—	227	3467	2157	1772	1482
Total	695	1407	836	11032	7619	6564	5735

Reconciliation of Petroleum and Natural Gas Reserves:

	Oil (mbbl)			Gas (mmcf)			Total (mboe)		
	Proven	50% Probable	Total	Proven	50% Probable	Total	Proven	50% Probable	Total
December 31, 1994	529	275	804	2796	582	3378	809	333	1142
Additions/revisions	80	(33)	47	(197)	(151)	(348)	60	(48)	12
Divestitures	(25)	(15)	(40)	(1192)	(431)	(1623)	(144)	(58)	(202)
Production	(116)	—	(116)	—	—	—	(116)	—	(116)
December 31, 1995	468	227	695	1407	—	1407	609	227	836

Summary of Price Forecasts

In accordance with Reliance Engineering Group Ltd. price schedule effective July 1, 1995:

	Light Crude Oil		Natural Gas
	WTI Cushing ($US/bbl)	FOB Edmonton ($CDN/bbl)	Direct Sales ($CDN/mcf)
Year			
1995	17.75	23.50	1.15
1996	18.50	24.35	1.38
1997	19.50	25.50	1.58
1998	20.75	27.15	1.78
1999	21.75	28.28	1.93
2000	22.75	29.60	2.12

Notes

(1) Prices escalated at 4.0% per annum after 2000.

(2) Exchange rate of $0.72 CDN/$US used in 1995, escalating to $0.74 CDN/$US in 2000.

Net Asset Value

The Company's net asset value as at December 31, 1995 was calculated at $6.8 million or $0.52 per common share:

	($000)
Reserves	6,564
Undeveloped lands	990
Seismic	678
Working capital deficiency	(1,433)
	6,799
Common shares outstanding at year-end	13,066,898
Net asset value per common share	$0.52

Management's Discussion & Analysis

The following discussion and analysis of operating results and financial condition should be read in conjunction with the financial statements commencing on page 16 of this report.

HIGHLIGHTS

Electra achieved record levels of gross production revenue and cash flow from operations in 1995.

Production volumes increased 75 %; consequently, gross production revenue increased 118 % to $2,560,620 in 1995 from $1,175,895 in the prior period.

Cash flow from operations increased 199 % to $729,797 from $244,421. On a per share basis, cash flow from operations increased to $0.06 per share from $ 0.02 per share in the prior period.

Loss for the period increased 61 % to $100,485, or $(0.01) per share, from a loss of $62,296, or $(0.01) per share in the prior period.

Capital expenditures increased to $4,128,914 in 1995 from $2,313,732 in the prior period.

The bank credit facility increased to $1,700,000.

RESULTS OF OPERATIONS

On February 9, 1995, the amalgamation of Electra Petroleum Ltd. with Lake Placid Resources Ltd. was effected by the issuance of 520,000 common shares of the new entity, Electra Energy Corporation, to the former shareholders of Lake Placid. For accounting purposes, the amalgamation was treated as a purchase of Lake Placid by Electra. Lake Placid had oil and gas property with a 15% pre-tax discounted cash flow value of $199,166 and working capital of $14,966. As the oil and gas property did not conform to Electra's property profile, it was disposed of in two separate transactions; consequently, the operational data pertains solely to the former Electra.

Electra's production averaged 329 boe/d during 1995. The Company commenced the year with an average production rate of 405 boe/d during January, peaked at an average 420 boe/d during February and exited the year with an average rate of 317 boe/d during December. Depletion of oil and gas assets was calculated to be $743,634 or $6.19 per boe.

The cause for the production rate variance is the reservoir behavior of Taber, Electra's main producing property. Production from this field averaged 321 bbl/d during the first month our new Oil Battery and Gathering System was functional, April, 1995, and closed the year averaging 187 bbl/d, during December. A review of production statistics and water cuts suggests that the production rate has stabilized and the steep decline recently experienced should not reoccur. To stabilize and perhaps, increase production, a pressure maintenance plan has recently been implemented, the effects of which have not yet been realized.

During the year ended December 31, 1995, Electra participated in the drilling of 24 (5.1 net) wells of which 18 (3.1 net) are producing oil wells, 1 (1.0 net) is a shut-in gas well and 5 (1.0 net) were dry and abandoned. The Company experienced a drilling success ratio of 79% (81% net).

The year's results reflected gross oil and gas sales of $2,560,620 of which $2,537,853 (99 %) pertained to oil and $22,767 (1 %) related to natural gas sales. Total oil production was 119 mbbl or an average 325 bbl/d at a price of $21.22 per barrel. Total gas production was 16 mmcf or an average 43 mcf/d at a price of $1.13 per mcf. Royalties paid of $335,620 included crown royalties of $93,983 and are net of a reduction equal to $45,247 applied for under the Alberta Royalty Tax Credit (ARTC) program. Prior to year-end, the Company disposed of all of its minor interests in natural gas production.

RESULTS OF OPERATIONS cont'd

General and administrative expense of $850,079 includes approximately $222,000 of professional fees of a legal, accounting, or engineering nature and certain other one-time charges which are not anticipated to recur.

During the year, the Company capitalized general and administrative expenses in the amount of $148,442.

Interest expense of $116,776 on the Company's Overdraft Lending Agreement was recorded at the Canadian Imperial Bank of Commerce's prime rate plus 1% for the period.

During the year, the Corporation disposed of certain oil and gas properties it determined were not strategic for total proceeds of $864,937. Other capital was provided by the issuance of common shares. 852,600 flow-through common shares were issued for cash of $358,092 and the debenture outstanding at the end of the prior year, in the amount of $141,500, was converted into 283,000 Class A common shares of the Corporation. During the second quarter, Electra repurchased 540,000 Class A common shares for consideration of $205,200.

On a $/BOE basis		
Revenue	$	21.14
Royalties		2.80
Operating		4.40
Netback from field		13.94
G & A		7.07
Interest		0.98
Netback after G & A and interest	**$**	**5.89**

CAPITAL EXPENDITURES

Capital expenditures during 1995 increased to $4,128,914 compared to $2,313,732 in the previous period.

Capital Expenditures	*($000)*
Land	621
Seismic	325
Drilling and completions	1,992
Production facilities	1,186
Other	5
	4,129

LIQUIDITY AND CAPITAL RESOURCES

Electra's 1995 capital expenditure program was financed through $729,797 of internally generated cash flow from operations, $358,092 of flow-through equity financing and proceeds realized on the disposition of non-core properties in the amount of $864,937. Further capital was provided in the amount of $1,305,203 by the Corporation's Overdraft Lending Agreement and Electra's other components of working capital, which have decreased to $(128,097) from $813,358 at December 31, 1994.

Long-term debt as represented by the debenture payable of $141,500 has been converted to 283,000 Class A common shares of the Corporation. Electra has drawn-down $1.3 million of its total $1.7 million credit facility with the CIBC.

The capital budget for 1996 anticipates spending in the order of $2.0 million to drill, complete and equip wells in company core areas and certain exploratory plays. These expenditures will be funded by cash flow and bank financing.

Electra is embarking on an exploration program for crude oil and natural gas which will focus on exploitation of current land holdings as well as diversifying its production and reserve mix.

BUSINESS RISKS

The Company's principal business risks arise from the nature of crude oil and natural gas markets, uncertain results of capital expenditure programs and volatility of interest rates and exchange rates. The Company actively manages the risks of capital programs by concentrating drilling and subsequent development activities in areas where the Company has demonstrated technical capabilities.

To reduce the risk associated with commodity price volatility, Electra entered into fixed price hedges as follows:

	bbl/d	Fixed Price ($CDN)	Term
Effective Date			
May 1, 1995	200	26.11	6 months
December 1, 1995	100	24.32	4 months
December 1, 1995	100	24.28	4 months
January 1, 1996	100	25.35	4 months
March 12, 1996	200	25.54	4 1/2 months

The Company's sensitivity to fluctuations in key business conditions, as at December 31, 1995, is illustrated in the following table:

	Impact on Cash Flow Per Common Share ($)
Commodity price changes	
Crude Oil ($1.00 per barrel)	0.01
Production volume changes	
Crude Oil (100 barrels per day)	0.04
Financial changes	
Interest rate (one percent)	—
Exchange rate (Cdn $0.01)	—

OUTLOOK

Electra is optimistic about opportunities available in 1996 and beyond to establish continued growth and profitability.

Electra's 1996 budget assumes an average price for oil of U.S. $ 18.00 per barrel and a Canadian/U.S. exchange rate of $0.72.

Management's Report to the Shareholders

All the information in this annual report is the responsibility of management. The Financial Statements have been prepared by management in accordance with generally accepted accounting principles. The financial information elsewhere in the annual report has been reviewed to ensure consistency in all material respects with that in the Financial Statements.

The Company maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

KPMG Peat Marwick Thorne, an independent firm of Chartered Accountants, has been engaged to examine the Financial Statements and provide their Auditors' Report. Their report is presented with the Financial Statements.

The Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. An Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the Financial Statements before they are presented to the Directors for approval. The Financial Statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

J.D. Gary Kirkpatrick
President and Chairman

Brian D. Korney,
Vice President, Finance

April 16, 1996

Auditors' Report to the Shareholders

We have audited the balance sheets of Electra Energy Corporation as at December 31, 1995 and 1994 and the statements of loss and deficit and changes in financial position for the year ended December 31, 1995 and the ten months ended December 31, 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the year ended December 31, 1995 and the ten months ended December 31, 1994, in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada April 3, 1996

Balance Sheets

	December 31 1995	December 31 1994
Assets		
Current assets		
Cash	$ —	$ 476,531
Accounts receivable	521,632	1,009,019
Prepaid expenses	26,169	15,783
	547,801	1,501,333
Capital assets (note 3)	4,584,827	2,052,733
	$ 5,132,628	$ 3,554,066
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 4)	$ 1,305,203	$ —
Accounts payable	675,898	546,475
Current portion of long-term debt (note 5)	—	141,500
	1,981,101	687,975
Deferred income taxes	45,978	22,000
Site restoration provision	31,601	18,473
	2,058,680	728,448
Shareholders' equity		
Share capital (note 6)	3,366,293	2,952,138
Deficit	(292,345)	(126,520)
	3,073,948	2,825,618
Commitments (note 9)		
Financial instruments (note 10)		
	$ 5,132,628	$ 3,554,066

See accompanying notes to financial statements.

On behalf of the Board

Director

Robert G. Gibson

Director

Statements of Loss and Deficit

	Year ended December 31, 1995	Ten months ended December 31, 1994
Revenue		
Oil and gas	$ 2,560,620	$ 1,175,895
Royalties paid, net of royalty tax credit	(335,620)	(177,877)
	2,225,000	998,018
Expense		
General and administrative	850,079	452,332
Production and operating	528,348	239,730
Interest on long-term debt	116,776	10,992
Provision for site restoration	34,964	15,118
Write-down of U.S. petroleum and natural gas properties	—	170,397
Bad debt expense	—	50,543
Depletion and depreciation	771,340	123,702
	2,301,507	1,062,814
Loss before income taxes	(76,507)	(64,796)
Income tax provision (note 7)		
Deferred (recovery)	23,978	(2,500)
Net loss for the period	(100,485)	(62,296)
Deficit, beginning of period	(126,520)	(64,224)
Cost over assigned value of repurchased shares	(65,340)	—
Deficit, end of period	$ (292,345)	$ (126,520)
Loss per share	$ (0.01)	$ (0.01)

See accompanying notes to financial statements.

Statements of Changes in Financial Position

	Year ended December 31, 1995	Ten months ended December 31, 1994
Cash provided by (used in)		
Operations		
Net loss for the period	$ (100,485)	$ (62,296)
Items not involving cash:		
Write-down of U.S. petroleum and natural gas properties	—	170,397
Deferred tax provision (recovery)	23,978	(2,500)
Depletion and depreciation	771,340	123,702
Provision for site restoration	34,964	15,118
Cash provided by operations	729,797	244,421
Changes in non-cash operating working capital	326,880	(597,485)
	1,056,677	(353,064)
Financing		
Issue of share capital:		
For cash	358,092	1,379,525
On amalgamation	214,132	30,000
On conversion of debenture	141,500	—
Repurchase of share capital:		
In exchange for cash	(25,200)	—
In exchange for capital assets	(180,000)	—
Long term debt	(141,500)	—
	367,024	1,409,525
Investments		
Expenditures on capital assets	(4,128,914)	(2,313,732)
Proceeds on sale of petroleum and gas natural properties	864,937	1,475,122
Amalgamation (note 1)	(214,132)	—
Site restoration costs incurred	(21,836)	(1,945)
	(3,499,945)	(840,555)
Changes in non-cash investing working capital	294,510	(298,144)
	(3,205,435)	(1,138,699)
Decrease in cash position	(1,781,734)	(82,238)
Cash, beginning of period	476,531	558,769
Cash (bank indebtedness), end of period	$ (1,305,203)	$ 476,531
Cash provided by operations per share	$ 0.06	$ 0.02

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1995 and the ten months ended December 31, 1994

1. Amalgamation and comparative figures

On February 9, 1995 Electra Petroleum Ltd. amalgamated with Lake Placid Resources Ltd. (Lake Placid), a reporting issuer in Alberta, to form Electra Energy Corporation. Each Lake Placid shareholder received one common share of the continuing entity for each ten common shares they previously held. Each Electra Petroleum Ltd. shareholder received one common share of the amalgamated entity for each common share they previously held. The former Electra Petroleum Ltd. shareholders held, immediately following the amalgamation, in excess of 95% of the amalgamated entity's outstanding common shares of which there were a total 12,754,298 issued and outstanding. Electra Petroleum Ltd. was deemed to be the acquiror of Lake Placid.

The business combination was accounted for using the purchase method of accounting and the purchase price was allocated based on fair values as follows:

Current assets	$	29,839
Capital assets		199,166
Current liabilities		(14,873)
Total consideration funded by 520,000 common shares of the continuing entity	$	214,132

The comparative financial information presented is for the ten months ended December 31, 1994 due to a change in year end from February 28.

2. Significant accounting policies

(a) Capital assets

The Corporation follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for and the development of petroleum and natural gas reserves in North America, whether productive or unproductive, are capitalized in cost centres on a country by country basis. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. Proceeds of disposition of property sales are credited to the net book value of the property and equipment. Gains or losses are not recognized upon disposition of oil and gas properties unless disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and amortized using the unit-of-production method based on gross proved oil and gas reserves as determined by independent and company engineers. For purposes of the depletion calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content. The carrying value of unproved properties is excluded from the depletion calculation.

In applying the full cost method, the Corporation performs a ceiling test which restricts the capitalized costs less accumulated depletion and amortization, deferred income taxes and the site restoration provision from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, based on current prices and costs, and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly these financial statements reflect only the Corporation's proportionate interest in such activities.

Depreciation of other assets, including leasehold improvements, is based on estimated useful life and is calculated using the declining balance or straight-line basis at rates of 20% to 30%.

(b) Site restoration provision

Future site restoration costs are amortized using the unit-of-production method. These costs are based on year-end estimates of the anticipated costs of site restoration.

(c) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the anticipated tax deductions to be renounced.

(d) Per share amounts

Per share amounts are calculated using the weighted average number of shares outstanding during the period.

(e) Measurement uncertainty

The amounts recorded for depletion, depreciation, and amortization of capital assets and the provision for future site restoration are based on estimates. The cost ceiling is based on such factors as estimated proven reserves, production rates, oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

(f) Financial instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to flucuations in oil prices and foreign exchange rates. Gains or losses from these activities are reported as adjustments to the related revenue or expense accounts when the gain or loss is realized.

3. Capital assets

December 31, 1995	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 5,955,025	$ 1,477,788	$ 4,477,237
Other assets	150,804	43,214	107,590
	$ 6,105,829	$ 1,521,002	$ 4,584,827
December 31, 1994			
Petroleum and natural gas properties	$ 2,726,944	$ 734,154	$ 1,992,790
Other assets	75,452	15,509	59,943
	$ 2,802,396	$ 749,663	$ 2,052,733

During the year ended December 31, 1995, the company capitalized overhead related to exploration and development expenses in the amount of $148,442 (ten months ended December 31, 1994 - $148,443). At December 31, 1995, costs of approximately $1,284,000 (December 31, 1994 - $1,509,000) included in petroleum and natural gas properties had an income tax base of nil. For the year ended December 31, 1995, undeveloped land with a cost of $990,000 (ten months ended December 31, 1994 - $683,000) has been excluded from costs subject to depletion and depreciation.

A ceiling test calculation was performed at the effective date of December 31, 1995 which resulted in the estimated future net revenues from proved reserves exceeding the net book value of the Company's petroleum and natural gas properties. The prices used in the ceiling test calculation at December 31, 1995 were $19.22 per barrel of crude oil and $1.33 per mcf of natural gas. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

4. Bank indebtedness

During 1995 the Corporation obtained a $1,700,000 revolving production loan credit facility bearing interest at bank prime plus 1% with interest payable monthly. The loan is secured by a general assignment of debts, a $3,000,000 fixed and floating charge debenture with a first fixed charge on certain petroleum and natural gas properties and a floating charge on all other assets.

The loan is payable on demand and is subject to periodic review; however, repayments are not required provided borrowings are not in excess of the borrowing base and that other existing loan covenants are complied with.

5. Long-term debt

On January 3, 1995, pursuant to the conversion option, the debenture, which had been included in long-term debt and is held by a charitable trust which is related to a director and shareholder of the Corporation, was converted into 283,000 common shares of the Corporation.

6. Share capital

(a) Authorized

Unlimited number of Class A common shares without par value.

(b) Issued

	Number of shares	Amount
Balance, February 28, 1994	10,387,300	$ 2,154,294
Issued in exchange for petroleum and natural gas properties	39,998	30,000
Issued flow-through shares for cash	1,524,000	1,379,525
Effect of tax deductions renounced on flow-through shares issued	—	(611,681)
Balance, December 31, 1994	11,951,298	2,952,138
Issued on conversion of debenture	283,000	141,500
Issued upon amalgamation (note 1)	520,000	214,132
Repurchased and cancelled	(540,000)	(139,860)
Issued flow-through shares for cash	852,600	358,092
Effect of tax deductions renounced on flow-through shares issued	—	(159,709)
Balance, December 31, 1995	**13,066,898**	**$ 3,366,293**

(c) During the year ended December 31, 1995, the Corporation granted options to certain directors, officers and employees to acquire a total of 361,430 Class A common shares at $0.40 per share as to 56,000 and the balance at $0.30 per share, vesting over a three year period and expiring in April, 2000 and June, 2000, respectively. Options to acquire 860,000 Class A common shares at prices ranging from $0.50 to $1.00 per share outstanding at December 31, 1994 were repriced to $0.30 per share and remain outstanding with expiry in February, 2000. Options to acquire 471,000 Class A common shares at prices ranging from $0.50 to $1.00 per share expired during the first three quarters of 1995.

Warrants granted to a former director/employee to acquire 300,000 Class A common shares at $0.75 per share were cancelled effective April 24, 1995.

Dividends cannot be paid without the bank's prior consent.

7. Income taxes

The provision for income taxes in the statement of loss reflects an effective income tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	Year ended, December 31, 1995	Ten months ended December 31, 1994
Loss before income taxes	$ (76,507)	$ (64,796)
Corporate income tax rate	44.6%	44.3%
Computed income tax recovery	(34,122)	(28,730)
Increase (decrease) resulting from		
Non-deductible crown payments, net	59,222	15,200
Resource allowance	(109,172)	(32,804)
Non-tax base depletion and depreciation	98,773	40,461
Other	9,277	3,373
	58,100	26,320
Actual income tax provision (recovery)	$ 23,978	$ (2,500)

The Corporation has available for deduction against future taxable income undepreciated capital cost, Canadian exploration expense, Canadian development expense and Canadian oil and gas property expense aggregating approximately $3,237,000 (December 31, 1994 - $429,000) some of which may be restricted and be deductible only against revenues from certain properties.

8. Related party transactions

For the ten months ended December 31, 1994, the Corporation paid interest on a convertible debenture held by a charitable trust which is related to a director and shareholder of the Corporation in the amount of $10,992 (see note 5).

9. Commitments

The Corporation is committed to payments under operating leases for building and equipment through 2000 as follows:

1996	$ 112,580
1997	111,341
1998	44,211
1999	7,200
2000	7,200
	$ 282,532

10. Financial instruments

The Company uses derivative financial instruments to hedge its exposure to fluctuations in oil prices and foreign exchange rates. During the year, the Company had net receipts of $42,366 under crude oil price and foreign exchange swap contracts which were credited to oil and gas revenue. The following summary of contracts, which were entered into after December 31, 1995, are presently in effect:

(a) Crude oil fixed price swap on 3,000 barrels per month at $25.35 Cdn. per barrel based on West Texas Intermediate for the four months ended April 30, 1996, settled monthly.

(b) Crude oil fixed price swap on 200 barrels per day at $25.54 Cdn. per barrel based on West Texas Intermediate for the four months ended July 31, 1996, settled monthly.

Management and Directors

J.D. Gary Kirkpatrick
President and Chairman

Anthony D. Convey
Executive Vice President

Douglas L. Proctor
Vice President, Exploration

Brian D. Korney
Vice President, Finance

Robert T. Malcolm, Q.C.
Corporate Secretary, Director

Robert G. Gibson
Director

Thomas F. Goodenough
Director

John A. Kaye
Director

Annual General Meeting

The Annual General Meeting of Shareholders will be held on Thursday, May 30, 1996, at 10:30 a.m. at the Bow Valley Club, Suite 370, 250 - 6th Avenue S.W., Calgary, Alberta. Shareholders who are unable to attend are asked to complete and return their Form of Proxy to Montreal Trust Company of Canada.

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Registrar and Transfer Agent

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of Canada
Stock Transfer Services
411 - 8 Avenue S.W.
Calgary, AB T2P 1E7

Stock Listing

Alberta Stock Exchange "EEN"

Abbreviations

bbl	barrel
bbl/d	barrels per day
mbbl	thousand barrels
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
boe	barrel oil equivalent (1 boe = 10 mcf)
boe/d	barrels oil equivalent per day
mboe	thousand barrels oil equivalent
W.I.	working interest

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